

**SECTORWATCH | CORONAVIRUS | PAINTS**

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
CHEMICALS	PAINTS
SIZE	<ul style="list-style-type: none"> <li>- Total market size of the sector is estimated at PKR ~50bln</li> <li>- Cumulative Annual Growth rate (CAGR) is ~5% in the past five years</li> </ul>
NUMBER OF PLAYERS	<ul style="list-style-type: none"> <li>- Around 15-20 players in the organized sector, three players are listed on PSX</li> <li>- Around 60% of the total market demand is catered by informal sector</li> </ul>
PACRA PENETRATION	<ul style="list-style-type: none"> <li>- PACRA rates 1 entity in Paint sector</li> <li>- PACRA rated universe contributes ~10% to industry's revenue</li> </ul>
IMPACT	<ul style="list-style-type: none"> <li>- Demand: The demand for paints (decorative, industrial) is directly associated with the activity in construction, infrastructure and industrial sectors. The peak season for the industry extends from February to May and August to November. The countrywide lockdown curtailing construction and industrial activity during peak season is expected to adversely impact the demand. Recently announced incentive package by the Federal Government and gradual opening of construction and allied industries are expected to garner demand for the sector's products to an extent. However, demand from automobile and related industries would remain depressed</li> <li>- Supply Chain: The raw material of the sector is mainly imported from the Middle East and China including petrochemicals, pigments, solvents and different additives. The supply chain from the Middle East has not been affected. However, imports from China were initially disrupted due to COVID-19 outbreak but the risk was mitigated due to presence of numerous suppliers at different geographical areas in China. Further, the industry has links to alternative suppliers in other East Asian countries. The industry players on average carry inventory of ~2 months</li> <li>- Operations: The operations of the industry are suspended since late March in compliance with lockdown directives of various provincial governments across the country. Operations of the sector are expected to resume in line with opening up of construction and allied industries in a phased manner</li> <li>- Financial obligations: Overall, paint sector is moderately leveraged, with short-term borrowings mainly for working capital requirements. SBP's recent rate cut of 425bps to reduce debt servicing costs and alleviate pressure on the bottom-line. Rationalization of sales tax and excise duty levied on construction material, and exemption from withholding tax on construction materials, except for cement and steel, announced in the recent incentive package for construction and allied industry by the government are expected to improve the liquidity profile of the industry</li> <li>- Profitability and margins: Sales expected to be lower as demand gradually picks up. Prices may come under pressure due to high competition among players and from informal sector resulting in relatively lower margins. However, declining prices of raw materials (i.e. Petrochemicals and commodity chemicals representing around 85% of total Cost of Goods Sold) due to COVID-19 expected to relieve pressure on already squeezed industry margins.</li> </ul>

**DISCLAIMER**

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